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Vol. 24, No. 35 September 3, 1990

NEWS BRIEFS

Circle K to shutter 200 stores and reassign 1,600

PHOENIX, Ariz. — Circle K Corp., the nation's second-largest convenience store operator, will close 200 underperforming stores and reassign nearly 1,600 employees in one of its first moves to improve operations since filing in May for Chapter 11 bankruptcy protection.

The stores to be closed are primarily in the South and West and were chosen based on soft unit sales and poor unit profitability, a spokesman for the 4,500-unit chain said.

Circle K has been awaiting court approval to sell 375 stores in Hawaii and the Pacific Northwest in a deal that was finalized before its Chapter 11 filing but has since been delayed.

The company, which is more than $1.2 billion in debt, also is looking to terminate 400 leases at unprofitable sites.

Meanwhile, the company has named Karen J. Simon, a former director of marketing for DairyMart, Enfield, Conn., senior vice president of marketing.

LA smog officials drop plans to ban drive-thrus

LOS ANGELES — Regional air quality officials have scrapped plans to ban the construction of new drive-thrus in the four-county Los Angeles area and instead have proposed to cut carbon dioxide outputs through an as-yet-undefined program to reduce cars' idling times at the restaurants.

James Lents, executive officer of the South Coast Air Quality Management District, said the Environmental Protection Agency's proposal to mandate the use of oxygenated gasoline in the region will permit his agency to drop the drive-thru ban from a sweeping slate of measures aimed at meeting federal clear-air standards.

The smog-control agency, as part of its 1989 master plan, still intends to impose tighter emission standards on char-broiler restaurants in the 13,350-square-mile region, comprising Los Angeles, Orange and Riverside counties and the non-desert portion of San Bernardino County.

W.R. Grace sells Del Taco chain

NEW YORK — W.R. Grace & Co., a diversified conglomerate based here, has reached an agreement to divest its Del Taco Restaurants subsidiary, a 97-unit quick-service Mexican food chain, to Taco Tico Inc. of Wichita, Kan.

Before the sale, however, Grace will proceed with the acquisition of the remaining 1.5 million or 18 percent of publicly held shares of Del Taco it does not own, for $3.25 per share. Once Grace completes the acquisition of Del Taco's outstanding shares, the 115-unit Taco Tico will purchase the entire Del Taco operation.

Meanwhile, George Baker, the president of Taco Tico, has been named president and chief executive of Del Taco, replacing William Hyde. In accordance with an earlier agreement, Hyde had agreed to oversee Del Taco until the chain was divested.

Once the Del Taco transaction with Taco Tico is complete, the 13-unit American Cafe, a Maryland-based casual theme operation, will be W.R. Grace's lone restaurant holding.

Rax to sell 16 restaurants, write off assets

COLUMBUS, Ohio — Rax Restaurants Inc. said it is selling 16 underperforming units in Louisiana and Florida and is writing off more than $1 million in fixed assets to bolster cash flow.

Rax, operator and franchisor of the 490-unit quick-serve sandwich chain, said it expects to save about $900,000 in cash on an annualized basis by writing off $5 million for the total asset disposition.

The fixed asset write-off consisted mostly of items replaced during a store remodeling program completed a few years ago, the company stated.

Integra hires Westbrooke to manage 24 hotels

DALLAS — In a move to slash costs, struggling Integra — A Hotel & Restaurant Co. said it has hired Westbrooke Services Corp. to manage 24 of the 31 hotels that Integra owns or operates.

The cash-strapped company said that Westbrooke will provide management, accounting and consulting services at the properties and that Westbrooke's fees would rise with cash-flow improvements. Integra did not reveal the amount it expects to save through the arrangement.

Integra narrowed its losses marginally in its second quarter ended June 29 to $3.3 million, while revenues fell 8 percent, to $21.8 million. Through the first six months, the company lost $3.2 million, improving on the $4.6 million it lost during the same period last year, but revenues were off 7 percent, to $44 million.

BK unveils mini-burgers

MIAMI — Burger King has resurrected its miniature burgers in a slightly different form that eliminates some of the operational difficulties encountered with the original.

When the 1-ounce sandwiches were introduced several years ago as Burger Bundles, the burgers were cooked individually on Burger King's conveyor-style flame broiler. Franchisees complained that the patties were so small that they sometimes fell through the bars of the grill or were overcooked.

Now, two patties for the renamed Burger Buddies are cooked simultaneously, attached to one another to form a single pattie shaped like the numeral "8." The oddly configured burger is served on two buns that are also joined to resemble an 8. Customers are encouraged to "pull 'em apart."

An order of Burger Buddies consists of the two attached little sandwiches. It sells for roughly the same amount as a regular-sized hamburger or cheeseburger.

Marketing head Burcham flies Copeland's coop

NEW ORLEANS — Scott W. Burcham has stepped down as senior vice president of marketing for Al Copeland Enterprises, franchisor of the Popeyes and Church's chicken chains.

The split was "completely amicable" said a Copeland spokeswoman, who added that no successor has been named.

Burcham, who formerly held marketing posts at Bennigan's and Procter & Gamble, oversaw a $39 million marketing budget for the company's 2,000 restaurants.

Johnny Rockets inks British licensing deal

LONDON — Johnny Rockets, the nine-unit Los Angeles-based chain of 1940s-theme burger and malt shops, has forged an exclusive British licensing pact with City Centre Restaurants here.

The London company, whose 155 theme restaurants in Great Britain grossed $120 million last year, plans to open its first American-style Johnny Rockets unit on Fulham Road here in September.

Johnny Rockets' deal with City Centre calls for the development of at least two units a year over five years.

City Centre currently operates five varied theme concepts, including chains specializing in ribs, Mexican food and pizza.

Rouse prexy dies in plane crash

BOSTON — The president of Rouse Co., the large urban development corporation, was killed when a plane he was piloting crashed in the driveway of a home 5 miles from Logan International Airport.

Michael Spear, 49, was killed with his wife just moments after he notified air traffic controllers that an engine on his turboprop had caught fire. Two houses were destroyed in the ensuing crash.

The Rouse Co. is the nation's largest publicly held urban development corporation. The company's forte is the "festival marketplace," huge retail and restaurant shopping malls.

Some of the Rouse Co.'s better-known projects are Boston's Faneuil Hall, Baltimore's HarborPlace and New York's South Street Seaport.

FINANCIAL NEWS

KFC Japan IPO scores big on Tokyo Stock Exchange

by Richard Martin

TOKYO — Joint venturers Pepsico Inc. and Mitsubishi Corp. seems to have hatched a golden egg through the initial public offering of Kentucky Fried Chicken Japan, the country's first Western fast-food chain.

Pepsico said the value of a share in KFC-J rose nearly 32 percent during the first day of trading on the Tokyo Stock Exchange, selling initially for 8,470 yen — about $57 — and closing at $75. At $57 the stock fetched the maximum initial public offering price allowed by Japan's finance ministry.

Mitsubishi and Pepsico sold equal shares that added up to about 37 percent of KFC-J's equity. Each company retained a 30.5-percent interest in the 900-unit chain and allocated about 2 percent of the IPO shares to an employee stock ownership plan.

KFC's first outlet in Japan opened in 1970 under the management of Shin Ohkawara, KFC-J's current president and chief executive. About two-thirds of the Japanese chain is franchised, with annual systemwide sales of about $800 million.

Mitsubishi formed the joint venture with KFC in 1972. Pepsico, which also owns Pizza Hut and Taco Bell, acquired KFC in 1986.

The initial offering comprised 6 million shares — 2 million each from the joint venturers and 2 million in new shares sold by KFC-J. On the offering date, Aug. 21, Pepsico and Mitsubishi also sold an additional 225,000 shares each at a price a bit higher than $75 a share, a Pepsico spokesman said.

Such sales of extra shares are customary for IPOs in Japan, the company said.

Pepsico, which owned a 49-percent stake in KFC-J vs. Mitsubishi's 51-percent share, scored a pretax gain of $110 million from the transaction, including $86 million cash from its sale of 2.25 million shares and $24 million in non-cash equity gained from the sale of the 2 million new shares by KFC-J.

Pepsico said its $110 million gain, reduced to $50 million after taxes, will be offset by various unrelated charges totaling about $63 million, or $45 million after taxes. The charges include $19 million for the planned closure of "underperforming" Pizza Hut, Taco Bell and KFC units.

The company declined to specify the number of closed units but said the $19 million charge consisted of domestic closures costing $9 million for Pizza Hut, $4 million for Taco Bell and $4 million for KFC plus $2 million for discontinued international KFC operations.

Other charges include $18 million in accelerated contributions to the charitable Pepsico Foundation, $12 million for "potentially uncollectible" receivables from debt-laden retail customers of Pepsi's soft-drink and snack food divisions and $14 million for various pending lawsuits and claims.

Copeland Enterprises trims losses in second quarter

NEW ORLEANS — Al Copeland Enterprises Inc., franchisor of the Popeyes and Church's fried-chicken chains, said it had narrowed its second-quarter loss significantly.

The company posted a deficit of $4.7 million, down from the roughly $12 million loss for the same period last year.

Revenue for the quarter reached $118 million, a 14-percent increase from the figure for the same period last year.

A 3.5-percent jump in per-store sales volumes for company-owned units, a decrease in interest payments and the acquisition of 47 company-owned Church's from franchisees allowed a $2.1 million positive net cash flow for the quarter, the company said.

> The net losses are due in part to high interest payments.

Through the end of the quarter, the company also reduced its debt by $18.5 million through real-estate sales.

For the first two quarters of 1990, the company reported a loss of $13.9 million, compared with a $11.7 million loss during the year-ago period. The net losses are primarily due to interest payments incurred from the $425 million debt the company took on when chairman Al Copeland purchased the 1,400-unit Church's chain in March 1989.

Interest expenses for the second quarter were $12.1 million, compared with $16.9 million in the same period last year. Total interest payments for the first half of 1990 reached $25.1 million.

FOOD PRICE OUTLOOK

Mideast crisis affects wheat sales

by Patt Patterson

Wheat is a casualty of the Mideast situation, at least as far as farmers are concerned. Both Iraq and Kuwait were big wheat buyers. The big wheat shippers are frantically looking for other markets.

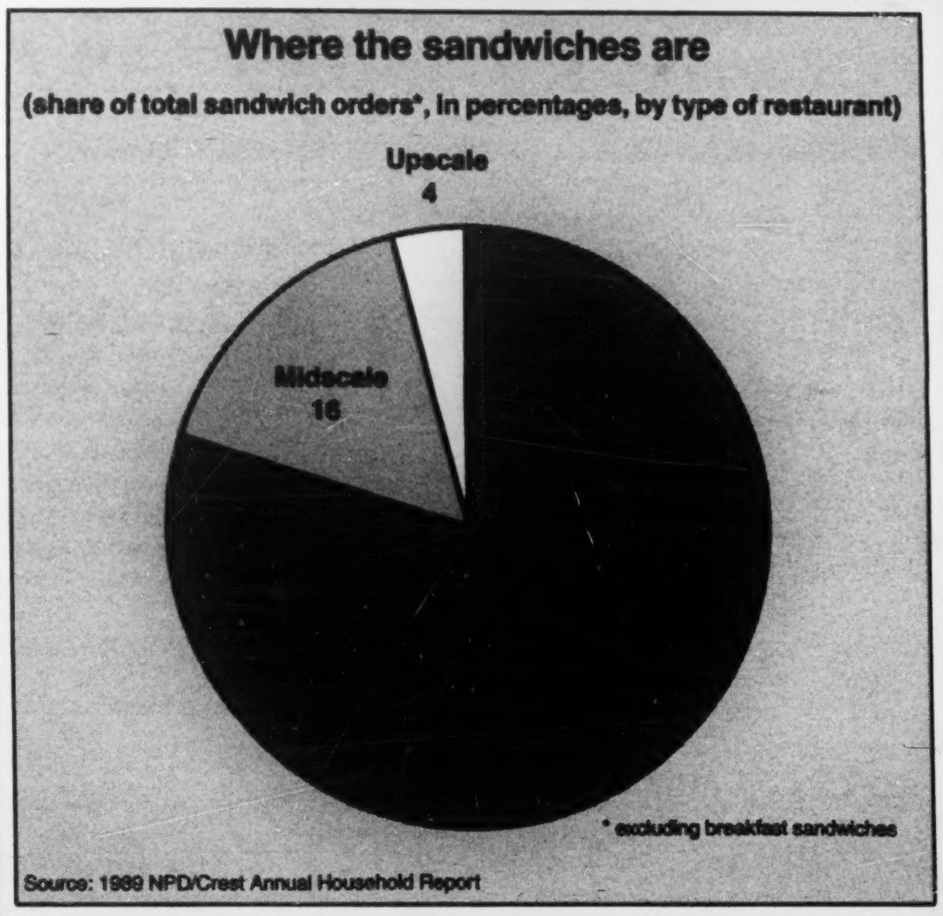
Meanwhile, wheat prices have fallen to a four-year low. If the military buildup in Saudi Arabia continues, it may siphon some of that wheat; it takes a lot of food for America's boys in uniform. But don't expect major reductions in flour and the price of baked products.

Both **soybeans** and **sorghum**, major animal feeds, are going to be tighter. Rains kept farmers from planting them, and in the case of soybeans, the plants have not grown as well as expected. Prices on soybeans and soybean meal are already moving up, with sorghum prices also increasing.

Coffee prices are unsettled. There's a big question about the amount that Brazil will release to world markets. U.S. roasters are sitting on large inventories, which some observers say are enough to get through at least half the heavy winter demand period, so they are in a wait-and-see posture. Don't expect any major change in prices, no matter which way the supply picture swings.

The Honduran **banana** strike continued, with no signs of any immediate settlement. Expect prices to stay elevated until some resolution is reached.

FACT FILE



FINANCIAL DIGEST

Industry posts real sales decline

WASHINGTON — Price-adjusted sales at the nation's eating and drinking places fell five-tenths of 1 percent in July in year-to-year comparisons, indicating the worst traffic performance by the industry this year, according to leading government yardsticks.

Unadjusted sales at the nation's eating and drinking places rose just 4.3 percent in July from the year-ago month, the slowest sales growth this year, according to the Department of Commerce's monthly retail sales report.

Just a month earlier sales at restaurants were percolating along at an unadjusted, annualized growth rate of 6.2 percent.

Meanwhile, July menu prices softened slightly, rising just 4.8 percent on a 12-month unadjusted basis, according to the Labor Department's Consumer Price Index.

Manor Care eyes two more hotel chains

SILVER SPRING, Md. — Manor Care Inc. is seeking to expand its already burgeoning fold of hotel concepts by agreeing to buy the Econo Lodge and Friendship Inn motel chains from New Image Realty for $60 million.

The deal would make Manor Care the nation's largest lodging franchisor, with approximately 2,300 under its supervision. Its stable already includes the Quality Inn, Comfort Inn, Rodeway Inn, Sleep Inn and Clarion Hotel chains.

Acquisition of the 600-unit Econo Lodge and 94-unit Friendship systems would be Manor Care's second motel purchase this summer. It recently acquired the 150-unit Rodeway Inn chain from Prime Motor Inn for $15 million. They also operate nursing homes and health-care facilities.

Consul posts 280% profit rise

MINNEAPOLIS — Consul Restaurant Corp., a 51-unit franchisee of Chi-Chi's Mexican dinner houses, said that fourth-quarter earnings rose 8 percent, to $515,000, on a 13-percent jump in revenues, to $23.5 million.

For the year ended May 31, net income soared to $247,000 from $65,000 in the previous year, while revenues increased 10 percent, to $88.3 million.

The company attributed the earnings improvement to tighter operating expenses and a strengthened staff. Comparable-unit revenues were up 3 percent for the year.

Four new Chi-Chi's dinner houses and three new Chi-Chi's el Pronto! quick-service units were added during the fiscal year.

Family Steak Houses earnings drop 20%

NEPTUNE BEACH, Fla. — Family Steak Houses of Florida Inc., a 26-unit Ryan's Family Steak House franchisee, said soft industry sales and losses from a joint venture with Rustic Inns in Orlando and Margate, Fla., slashed earnings 20 percent, to $176,000, during the second quarter.

Revenues for the period ended July 4 rose 7 percent, to $12.3 million.

Earnings from operations, which exclude the joint venture, interest expenses and real estate sale proceeds, increased 3 percent, to $1 million.

Through the first six months, the company's earnings fell 20 percent, to $571,100, while revenues rose 9 percent, to $25.2 million.

In other news, the board of directors elected a director, James W. Osborn, Family Steak Houses' 48-year-old president and chief executive.

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SECOND CLASS

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AP/Wide World Photos

A female Air Force airman and other troops from the 1st Tactical Fighter Wing at Langley, Va., eat breakfast at a Saudi air base.

Gulf buildup thins ranks of GI patrons

by Milford Prewitt

Operation Desert Shield may be shielding Saudi Arabia from an Iraqi invasion, but it is not shielding some restaurants from steep sales declines as their military clientele ships out.

As the American show of force builds in the Persian Gulf, restaurateurs near military bases are finding another reason to condemn Iraq's invasion of Kuwait.

"Business is off about 20 percent," lamented Jim Eckman, area supervisor of Ocean Rand Investment Co., a seven-unit Arby's franchisee with restaurants near the sprawling naval complex in Norfolk, Va. "This weekend was a Navy payday, and we always look forward to that. But this is about the worst it has been in three years."

A Burger King unit manager near Columbus, Ga., which borders the Army infantry base of Fort Benning, said

*(See **DESERT**, page 4)*

Desert tests mettle of Army foodservice

by Rick Telberg

As American troops were massing in the Persian Gulf with some of the world's most technologically sophisticated weaponry, they were also mobilizing an advanced system of combat foodservice.

In recent years canned C-rations have given way to plastic-and-foil pouches, labor-intensive commissaries have been replaced by mobile two-man field kitchens and No. 10 tins of bulk ingredients have been made obsolete by food trays that need only to be reheated in hot water.

"They don't eat out of cans anymore," said Frank Johnson, public-affairs director at the Defense Personnel Support Center in Philadelphia. The agency is responsible for purchasing $3.5 billion a year in food, clothing and medical supplies, including $1.8 billion in fresh produce alone.

But despite the advances, no expert seriously suggested that combat soldiers would stop complaining about their food.

"As long as they're grumbling, I know they're happy," said David Dee, a retired colonel who spent 29 years in the Army quartermaster corps.

Clearly, food is a key element in maintaining morale, a front-line worry to command-

*(See **ARMY**, page 7)*

THE PERSIAN GULF CRISIS

- **Employers grapple with call-up of workers**
- **Domino's unit loses drivers to call-up**

See page 4

- **Tray chic: Desert Shield deploys new field kitchen**
- **Plastic-bagged 'MREs' replace canned C-rations**

See page 7

States target insurance costs

Seek to reduce health plan fees by approving 'no frills' policies

by Peter Romeo

HARTFORD, Conn. — In an attempt to bring the cost of employee health insurance within reach of more companies, a number of states are giving insurers the go-ahead to develop "no-frills" budget policies for restaurants and other small businesses.

Connecticut, Florida, Virginia and Washington have already legalized the scaled-down packages, and Illinois, Georgia, Rhode Island, Oregon and Arizona, among others, are eyeing similar moves.

Insurance carriers project that the legislative changes will permit them to provide small business with basic medical coverage at premiums falling as much as 35 percent below the rates for conventional policies. However, the low-cost packages may not reimburse employees for drug-abuse counseling, psychiatric treatment, maternal care, acupuncture or other types of treatment that underwriters were previously mandated to cover.

*(See **STATES**, page 65)*

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Warming up to cooked greens
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ShowBiz parent merges concepts
Marketing/Page 12

Rax continues comeback
Financial/Page 14

Wanted: Professional, caring service
Charles Bernstein/Page 27

NFL pulls plug on sports bars

Cracks down on 'pirated' telecasts

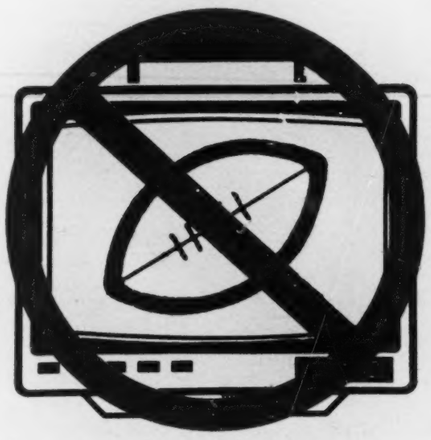
by Peter O. Keegan

The National Football League has sacked sports bar operators this fall by getting two television networks to scramble transmissions of out-of-town games, which the league says are being illegally "pirated" by sports bar owners with satellite dishes.

When CBS and NBC signed $1.8 billion worth of four-year contracts guaranteeing them exclusive television rights to NFL games last spring, the contract stipulated that they scramble signals for non-local games.

"We are required to show

*(See **NFL**, page 64)*



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NEWS BRIEFS

Shareholder suit charges TCBY with hiding results

LITTLE ROCK, Ark. — Shareholders have filed two lawsuits charging the TCBY yogurt chain and several of its officers with misrepresenting the company's sales and earnings potential.

In separate complaints, investors Kenneth Irvine and Michael Mitchell allege that the company defrauded investors and shareholders by concealing problems about its financial condition.

In a press release 1,900-unit TCBY said the allegations are without merit.

Late last month TCBY lowered its earnings projections for the third quarter ended Aug. 31, to a 25-cents-to-30-cents-per-share range. The company earned 43 cents per share in the year-ago quarter.

Following the company's announcement in earnings reduction, TCBY's stock price dropped a full point, to $7.63.

The company has also trimmed its corporate staff by laying off about 10, including Mel Leonard, a senior vice president in charge of the 144 corporate stores.

Drink tax repeal proposed by Florida lawmaker

TALLAHASSEE, Fla. — In a move championed by the state's restaurants and taverns, a state senator has drafted legislation that would replace Florida's controversial new drink tax with an increase in the general sales tax.

"A couple of people in the House have expressed their willingness to introduce a companion bill there, and we're looking to build support in the Senate for the alternative proposal," said Manny Mighdol, executive vice president of the Florida Restaurant Association.

The FRA has been striving to repeal the drink tax since it took effect on July 1. The measure requires restaurants and taverns to collect a surcharge of 10 cents for every ounce of liquor or 4 ounces of wine that they sell and collect an additional 4 cents for every 12 ounces of beer that they serve. Operators complain that basing the tax on the volume of what they pour rather than the amount of money they collect has created a bookkeeping nightmare.

The repeal proposal is sponsored by Bud Gardner, a Democrat from Cocoa Beach.

Target unveils new food court

MINNEAPOLIS — Target Stores has projected that its new five-segment in-store food court, called Food Avenue, will triple food and beverage sales.

In a departure from Target's traditional snack bar, Food Avenue highlights separate sections, including pizza, Mexican fast food, a grill, a snack shop and a bakery. The decor is more upscale than in the older stores, using ceramic tile tables instead of booths and neon lighting.

"This is an experiment for the Target of the future," said Al Hodges, director of food operations. "We plan to become a destination for eating as well as shopping."

The prototype Food Avenue is located in the new Target Greatland store in suburban Apple Valley.

BK sues Winner's over Chicken Tenders name

MIAMI — Burger King Corp. is suing RTM Winner's Corp., operator of Mrs. Winner's Chicken & Biscuits, for using the brand name Chicken Tenders, which Burger King introduced several years ago.

Burger King wants the federal court to order Mrs. Winner's to stop selling its Chicken Tenders product and to force RTM Winners to surrender any profits it made from the product.

In July, Mrs. Winner's restaurants in the Atlanta market introduced Chicken Tenders, a deep-fried boneless strip of chicken breast.

Spokesmen for RTM Winner's questioned whether Burger King's product name is proprietary in noting that the U.S. Agriculture Department has designated the fleshy, boneless part of the chicken breast as a chicken tender.

Burger King noted in its suit that it introduced Chicken Tenders in 1986.

Captive A & W exec urges Hussein to free dependents

BAGHDAD, Iraq — In a face-to-face confrontation with the president of Iraq that may have helped provoke a change in his hostage policy, A & W Restaurants vice president Kevin Bazner challenged Saddam Hussein to release all women and children detained since the Iraqi invasion of Kuwait.

Less than an hour after the Aug. 28 propaganda telecast in which Hussein met with Bazner and other Western hostages, the president said all women and children could leave Iraq.

Bazner, held with his wife and two small children since Aug. 2, appealed to the Iraqi leader to free dependents as a gesture of his "sincerity."

Hussein, at first resisting Bazner's plea, responded: "The proposal that you have made is only to be expected from a man because men, the first thing they have in mind is to free women and children somehow."

Sacramento mulls new no-smoking regulations

SACRAMENTO, Calif. — Restaurateurs in the unincorporated areas of Sacramento County would have to increase the area set aside for non-smokers from 10 percent to 50 percent of their seats under an ordinance the board of supervisors was set to vote on.

The ordinance also requires 50 percent of seating be set aside for no smoking in all other public places, such as airport lobbies, and bans smoking in all workplaces. The Sacramento City council is expected to consider and adopt a similar measure, local restaurateurs said.

Sam Manolakos of the California Restaurant Association's Sacramento chapter said a provision in the proposed ordinance permits operators who can prove a financial hardship to reduce the amount of seats set aside for non-smokers to 25 percent.

Many area operators already have 50 percent non-smoking seating, he noted.

Washington state restaurant official Gordon to retire

SEATTLE — John F. "Jack" Gordon, executive vice president and general manager of the Restaurant Association of the State of Washington since 1966, said he would retire in April, 1991, ending a 25-year career with the association.

RASW officials reported that the executive board had approved a five-year transitional retirement plan for Gordon, who will act as director of the association's Seattle-King County Chapters and as coordinator of its biennial legislative galas and regional expositions and conventions. No replacement has been named.

During Gordon's tenure with RASW, its membership grew from about 300 to 2,500, and its budget increased from less than $100,000 to better than $1.5 million, the association reported. He oversaw the creation of RASW, which resulted from the merger of the old Washington State Restaurant Association, the state's Class "H" Association and the lobbying arm of the Washington State Hotel-Motel Association.

Ogden debuts at Shrine theater

LOS ANGELES — Ogden Allied Entertainment Services has debuted as foodservice contractor at the 6,300-seat Shrine Civic Auditorium, the largest theater in North America.

The New York City-based contractor, which also services the Los Angeles Convention Center, the Greek Theatre and the Forum here, made its first Shrine appearance at the Aug. 17 performance of the Bolshoi Ballet.

The contractor, which will tailor menus to various types of performances and functions, held a backstage preview to show off high-end specialties, including salmon caviar, grilled lamb chops, sautéed garlic shrimp and chocolate-covered strawberries.

FINANCIAL NEWS

Rax continues comeback with new menu, sale of units

by Bill Carlino

COLUMBUS, Ohio — Rax Restaurants, in a two-pronged strategy designed to position itself as a top contender among sandwich chains and, in the process, reverse a series of quarterly losses, has introduced a new discounted menu while placing a string of sluggish units on the selling block.

"The saying that a chain must be all things to all people just doesn't fit with us," said Ira Hermann, chief executive of the 450-unit operation, based here. "We're strengthening our regional focus by gradually getting rid of our underperforming restaurants in weak markets. We're also pursuing aggressive discounting."

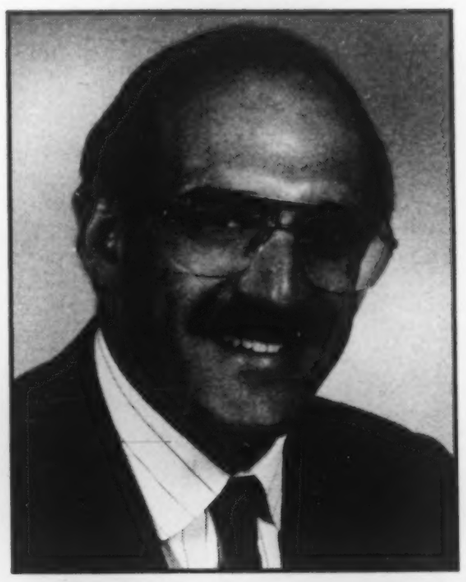
Although Rax Restaurants has undergone seven consecutive quarterly losses, it ended the third quarter of 1990 on an uptick. For the third period ended April 30, Rax shaved its red ink by almost 62 percent, to $736,000, compared with a $1.9 million loss in the year-ago period.

Despite the company's inability to show a profit, same-store sales for company-owned Rax units have consistently risen since the fiscal year began, up 5 percent, 11 percent and 13 percent respectively, through the first three quarters.

According to Hermann, systemwide sales are expected to hit $340 million for 1990, which would be a $10 million hike from the 1989 figure.

Henry Szabo, chief financial officer for Rax, attributed the company's earnings woes to tougher segment competition, overstaffed units and a logjam of hot and cold items on its now scaled-down food bar that resulted in exorbitant food and labor costs and a loss of identity with the customer.

"We've tweaked down the number of items on the food bars, and we're back to our



Ira Hermann

sandwich roots," Hermann said. "Now we have a much clearer focus of what we're supposed to be."

To extract the ever-dwindling fast-food dollar from value-conscious consumers, the chain has unveiled its new "Rax Super Savers Menu" in its backyard of Columbus — a competitive hotbed of fast food. The chain's new thrifty offerings will feature four entrées priced less than 99 cents.

Originally tested in Tampa, Fla., the Rax Super Savers Menu will offer two types of roast beef sandwiches — a Cheddar melt and a barbecue item and two varieties of soft-shelled tacos — chicken and a beef, bean and cheese variety.

"When fast-food competition is as tight as it is today, you have to do some type of price-cutting," Hermann explained, "whether it's in couponing or an alternate menu."

With the rollout of the Super Savers fare, Rax joins a growing portfolio of fast-food chains, including Wendy's and Taco Bell, that have rolled out items retailing for less than 99 cents.

However, Hermann said he would not press the chain's 350 franchisees to carry the new fare. Like most new products or promotions, the Super Savers will be a licensee option.

Rax is also shoring up pockets of stagnant units by divesting a total of 16 restaurants located in Louisiana and Florida and writing off in excess of $1 million in fixed assets.

The fixed asset write-off consists mainly of equipment, decor and carpeting replaced during an extensive store remodeling program several years ago.

Hermann said that the total asset disposition of $5 million would impact the chain's results for the fourth quarter of 1990, which have not been declared even though the period ended July 31. He added that the $5 million loss would result in an annualized cash savings of about $900,000 for Rax.

"We now look at each store as an individual profit center," Hermann noted. "We don't need stores with negative cash flows. The Florida restaurants in particular were sinkholes for us and offered no long-term growth opportunity."

Hermann said that he has already received some tentative offers for the units but declined to name the interested parties.

During a 16-month tenure at the helm of Rax, Hermann orchestrated the rollout of several new products, including a grilled chicken and a mushroom melt sandwich and twisty fries. He also instituted the Franchisee Partnership Program, a decreased royalty payment structure for new restaurants during the start-up phase.

Said Hermann, "I think we're gradually turning it around."

FOOD PRICE OUTLOOK

Frozen shrimp supplies increase

by Patt Patterson

Frozen shrimp is in better supply than it has been for the past two years. Although imports were down somewhat recently, they're still running about 10 percent higher than last year's. Domestic Gulf landings are greater than for the past two years. The oil spill off Texas hasn't seemed to affect the catch, but marine biologists say next year's catch may be down because of adverse effects on breeding grounds.

Louisiana's shrimp catch just started, with early landings mostly smaller sizes. Larger sizes are expected late in the fall. Unless fuel costs run up shrimpers' costs, prices should come down, particularly on larger sizes of most imports. Prices on **black tiger shrimp,** however, may hold at present levels because of strong world demand and some limit on supplies available.

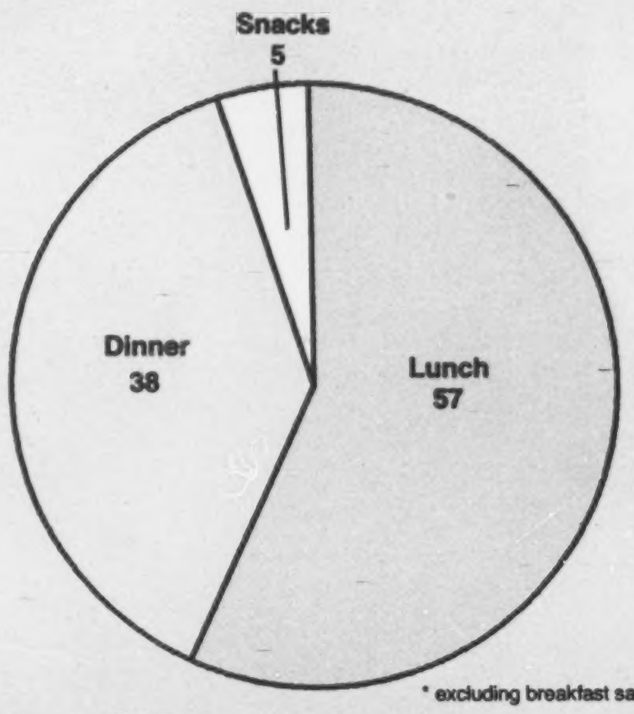
Canned salmon prices may drop lower. The **red salmon** pack is running nearly 60 percent higher than last year's, and only **chum** is posting lower figures than last year's. Even **pinks,** which earlier forecasts had shown scarcer this year, are up nearly 60 percent from last year's pack. There was a good carryover from last year, and overall salmon stocks are up more than 150 percent.

Canned tuna, though, is moving up in price. Foodservice sizes of both **tongol** and **skipjack** are affected. Albacore prices are expected to move up next on tighter supplies.

There should be about 5 percent more **frozen strawberries** available this crop year than last and 5 percent more than the average for the past five years. California freezers packed about 50 percent more than last year's crop. Mexican imports amounted to about the same amount of increase. Although prices haven't moved much yet, expect some slippage later.

FACT FILE

Share of total sandwich orders* by meal period
(in percentages)



* excluding breakfast sandwiches

Source: 1988 National Restaurant Association/CREST special study

FINANCIAL DIGEST

Rally's net jumps 56 percent

BEVERLY HILLS, Calif. — Rally's Inc. said that pro forma net income before an extraordinary credit jumped 56 percent, to $1.5 million, on a 24-percent increase in pro forma combined revenues to $19.4 million for the fourth quarter.

Pro forma figures include company results plus those from franchised restaurants in New Orleans, Birmingham, Ala., and central Indiana that were acquired last October.

Meanwhile, Giant Group Ltd. has increased its stake in the double drive-thru hamburger chain to 45.2 percent by purchasing 77,500 common shares.

For the year ended July 1, pro forma combined net income soared 78 percent, to $4.6 million, on a 32-percent improvement in revenues, to $69.6 million.

In other news, Rally's has agreed to acquire five restaurants in Ohio from a franchisee for an undisclosed amount. After the deal is completed, the company will own 88 of the chain's 237 units.

Steve's buys American Glace

LINDENHURST, N.Y. — Days after reporting a second-quarter loss, Steve's Homemade Ice Cream Inc. said it had purchased a majority stake in American Glace Inc., manufacturer of dessert products with no fat or cholesterol.

Terms were not disclosed.

Steve's, which also owns the Heidi's frozen yogurt and Swensen's ice-cream chains, said it lost $86,000 in its second quarter. In the year-ago period, the company earned $531,000.

Revenue slumped 24 percent, to $6.8 million during the period. The company blamed its deficit on poor inventory control at a major buyer, distribution disruptions in California and Florida, and a dispute with with a major New England licensee.

Meanwhile, advertising spending remains heavy, running $1.2 million heavier in the first two quarters than the year before.

Southland extends debt-swap offer

DALLAS — In a last-ditch effort to get needed bondholder approval on its complex debt-swap offer, the Southland Corp., the operator and franchisor of the 6,700-unit 7-Eleven convenience store chain, extended the offer deadline until Sept. 12.

In order for Southland to receive a proposed cash bailout of $430 million by Ito-Yokado, the franchisor of 7-Eleven stores in Japan, the chain must gain approval from bondholders representing 95 percent of the bonds outstanding in each of the five debt issues.

Under Southland's current proposal, the company would divide 25 percent of newly issued common stock among the various bondholders who wish to tender their outstanding notes.

So far, only holders of the company's preferred stock have met the minimum approval percentage, with more than 90 percent tendering their outstanding shares. Only two-thirds approval was required among preferred stockholders.

If Southland elicits sufficient bondholder approval, it will pave the way for Ito-Yokado to acquire a 70-percent stake in Southland Corp.

Southland, which accrued the majority of its $1.8 billion of debt following a 1987 leveraged buyout, drafted the debt-swap offer to satisfy bondholders who claim they would have lost more than 50 percent of their investment after the deal with Ito-Yokado.